

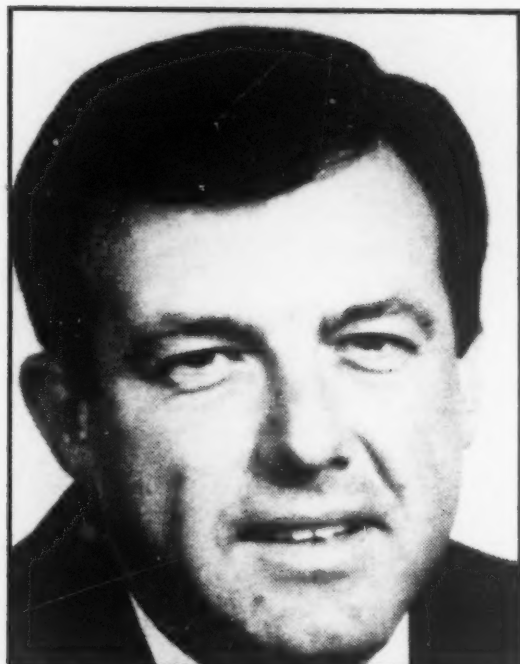


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DRUG STORE NEWS

Vol. 9/No. 17 Serving chains, wholesalers and high-volume independents for 58 years. Published by Lebhar-Friedman Inc. August 24, 1987

Revco to managers: Boost profitability



**Edwards challenges
Revco employees**

TWINSBURG, Ohio — Revco has targeted stores throughout the Southeast whose performances need improving.

Officers said the chain has launched a bonus program for store managers that is tied to new performance goals to boost the stores' profitability.

"This is a way that we are challenging people to do a better job," said Bill Edwards, Revco's ceo, who said the program's goal is to turn around unprofitable units that have been uncovered through extensive analysis of stores' results and their markets.

Edwards advised store managers in a letter last month that their stores had been identified as not meeting standards. Market sources said that a majority of about 200 units in five Southeastern states were notified they are now in "a review period."

The letter indicated that stores might be closed or sold if they didn't eventually improve.

The stores are in Florida, Alabama, Mississippi, Louisiana, and Arkansas.

Revco advised store managers in Detroit last month it is
See Revco, page 81

Reports some gains

TWINSBURG, Ohio — Heavy interest expenses related to last year's leveraged buyout are squeezing the bottom line for Revco D.S., but the chain's latest fiscal report also paints a picture of healthy gains in per-store sales and operating profits.

For the fiscal year ended May 30, Revco reported operating profits of \$159 million on sales of \$2.7 billion. Interest payments totaling \$81 million and an accelerated deprecia-

tion and amortization schedule, however, cut net earnings to \$10 million for the year, compared with a net of \$56.9 million last year.

For the 16-week fourth quarter, interest expense swelled to \$46.8 million, resulting in a net loss for the period of \$13 million vs. a gain of \$22.5 million in the fourth quarter of the previous year. Prior to reductions for depreciation/amortization and in-

See Gains, page 81

Filling gas tanks, scripts

By Al Heller

MINNEAPOLIS — SuperAmerica, which innovated the gas station/convenience store/pharmacy concept last fall, has set plans to expand the format to two more stores this summer and to eight to 12 stores in this market by 1990.

The 385-store chain is attempting to build a pharmacy base in the Twin Cities market, where it operates 65 stores currently and the major Rx competitors are Walgreens, Cub, K mart and Target.

SuperAmerica has faced trade skepticism

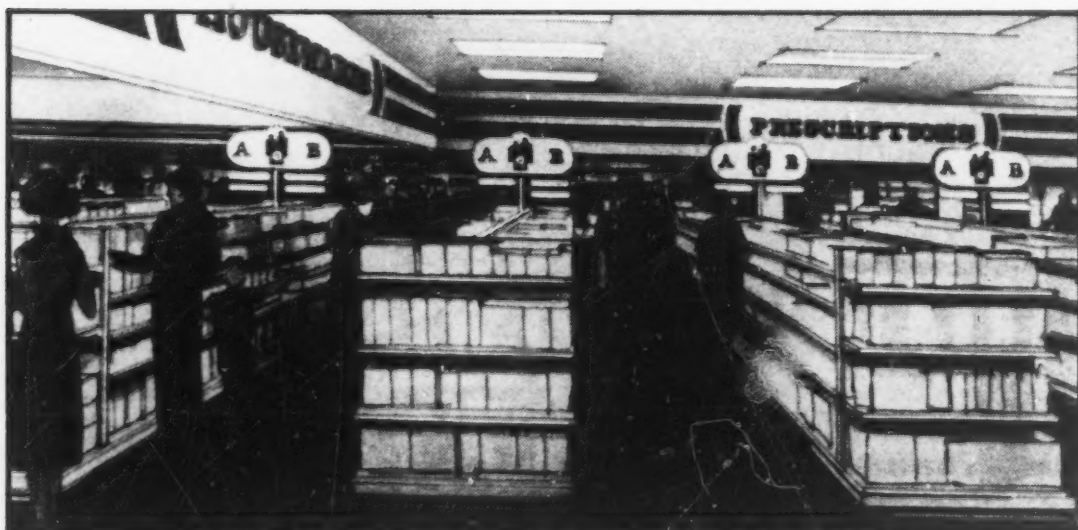
that the marriage of gas, food and pharmacy could work. But Mike Rasnak, who formerly supervised 42 K mart pharmacies and is now Rx director and H&BA manager at SuperAmerica, has carved out a 3,500-square-foot OTC/H&BA/Rx area just a few steps away from the checkstands to give the area high visibility in the 10,000-square-foot store.

"Thirty years ago, every corner had a grocery, pharmacy and gas station. We've combined them," he said.

He told *Drug Store News* the first phar-
See Gas, page 81



SuperAmerica is banking on the combination of gas station, pharmacy and grocery in one operation to fuel profits.



Shoppers will find pharmacy and front-end goods in the new stores.

Health Mart, Ben Franklin merge

By James Frederick

DALLAS — A new form of combination store, featuring a merger of franchised drug and variety store operations, will begin popping up in this key market beginning early this fall.

The stores will combine a Health Mart drug store and a Ben Franklin variety store—

both of which are franchised operations under the corporate umbrella of FoxMeyer, Inc., the nation's third-largest drug distribution company.

"We're projecting four to six Ben Franklin/Health Mart stores in Dallas/Ft. Worth, beginning this fall," said Jim Minton, senior vp of retail operations for FoxMeyer and

Ben Franklin.

"The stores will combine a variety store format with a drug store, which in today's market is not much different from a strong chain drug store operation like Revco or Eckerd," he added. "We think it will work very well, especially with the advantage our local

See Merge, page 81

LATE NEWS

• FALL RIVER, Mass.—Douglas Drug opened a 15,000-square-foot store here this month, its first in this state. The Rhode Island-based chain of 14 drug stores will open a second unit in Worcester, Mass., later this year.

• NEW YORK—Net income for F.W. Woolworth rose 19% to \$37 million in the quarter ended Aug. 1, aided in small part by The Rx Place off-price drug store division. A Woolworth spokesman predicted a three- to four-store increase for the three-unit division in the next 12 months, and said the company was "very pleased with the actual and projected results for Rx Place."

• HAZELWOOD, Mo.—Wal-Mart opened its first St. Louis-area Dot Discount Drug store here Aug. 18, bringing to 10 its total store count for the off-price drug store division. An 11th Dot will open in Kansas City Sept. 15.

Peoples eyes reverse in earnings decline

MONTREAL — Peoples Drug, part of the Imasco Drug Retailing Group formed several months ago, has started to reverse its earnings decline.

Imasco, its parent, reported that the 850-unit drug chain generated operating earnings of \$1.4 million (Canadian) for the first quarter ended June 30.

Purdy Crawford, Imasco's president and chief executive

officer, said he is confident that Peoples "will register an operating profit for fiscal 1988, and effect a full recovery over the next two years."

Crawford also said that Peoples' "modest profit" for the first quarter of 1988 was "a most encouraging start to our fiscal year."

Indeed, first quarter results were far better than the chain's fourth quarter in fiscal
See Peoples, page 81

In this issue: Inside Pharmacy

- MD dispensing triggers national debate
- Gladson: Analgesics planogram
- Arthritis drugs pose problems for researchers
- Landmark indy moves, doubles sales



NEWS IN BRIEF

Vons Cos./Allied Supermarkets merge

EL MONTE, Calif. — Vons Companies completed its merger with Allied Supermarkets recently, giving the 190-grocery store operator based here "greater financial and operating flexibility," according to Roger Stangeland, Vons chairman and cfo.

The merger, in which Vons took on Allied's corporate structure while retaining the Vons name, was accompanied by the sale of Allied's Detroit operations.

While the merger did not increase Vons' store or personnel count, the move did bring the retailer back to a public company status, which it last held in 1985 as a subsidiary of Household Finance Corp. (In January 1986, Vons management took the company private in a leveraged buyout).

The merger changed Vons incorporation to Michigan, and the company will assume Allied's June 30 year-end cycle. However, Vons management will continue to run the company from the El Monte, Calif. location. The transaction brought Vons stockholders \$132.1 million in cash, while Allied stockholders retained about 51.5 percent of the new company.

Allied's Detroit operations are now part of a new corporation, Meadondale Foods, organized by Allied's former chairman and president, David Page. Vons said Meadondale paid \$40 million in cash for the assets, plus a \$6 million subordinated debenture, while assuming approximately \$53 million of Allied's liabilities.

According to a Vons spokesman, the retailer now "has the ability to issue stock and raise capital" for acquisitions, while enabling it to have "ready access to public markets." The company said there are no acquisition plans at this time.

Fay's taps James Poole Jr. for treasurer

LIVERPOOL, N.Y. — Fay's Board of Directors has elected James Poole Jr. to the post of treasurer.

Poole will retain his current position of vp-planning, in which he is responsible for financial planning and budgeting. He takes on the additional duties of bank relations and cash management.



Reagan presents McKesson with award

SAN FRANCISCO — President Ronald Reagan has given the McKesson Corp. the highest award in the President's Citation Program for Private Sector Initiatives.

The citation is for McKesson's public service work with students enrolled in San Francisco's Alamo Park High School.

McKesson began the program in 1981 by offering Alamo High students tutoring in basic math and English as well as summer jobs. McKesson was the first company in San Francisco to formalize a partnership with a public school.

Since then, the program has expanded to include one-on-one tutoring by McKesson employees. McKesson provides academic help in several core curriculum and elective subjects and in computer training. McKesson has also donated 14 Apple II computers to the school.

INDEX

Beauty Beat	21
Category in Motion	22
C.E. Lesson	IP45
Editorial	6
Financial	82
Inside Pharmacy	IP1

Kanner: Eye on the Marketplace	14
Lawrence: What's New 16	
People in the News	8
Product Updates	24
Supplier News	18
Trends	11

Drug Store News (ISSN 0191-7587), is published biweekly—every other Monday, monthly in December plus extra Pharmacist's Reference issue in April, as well as an extra Annual Pharmacists Guide to OTC Patient Counseling in October, by Lehar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Subscription rates: Infield subscribers, retailers and wholesalers, one year \$19.50; two years \$35. Out-of-field subscribers, manufacturers, schools, libraries and all others, one year \$39. Single copy rate \$2. Foreign subscriptions: Airmail only \$125 per year.

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Vol. 9, No. 17

August 24, 1987



Newman targets educated, well-to-do families who understand his stores' value concept and can write checks for \$100 worth of goods when they stock up.

Rising sales convince F & M to boost market concentration

WARREN, Mich. — F & M President Frank Newman told *Drug Store News* he learned something recently from his competitors—though the news won't please them much.

"We can place like stores closer than we'd ever thought before," he said. As the 35-store deep discounter drives toward its goal of 100 stores by 1991, it will be able to hone in on Detroit and Chicago more heavily than originally planned.

In Detroit, where 11 F & M stores compete against Perry's A.L. Price, the F & M roster will expand eventually to 16. Its 12 Chicago-area stores will grow to 17 by the end of 1987, where they'll face off against three or four Pharmors, Newman said. In addition, F & M expected at pre-stime to open its first three Milwaukee stores this month.

What opened Newman's eyes to deeper market concentrations? Year-to-date sales at an Indianapolis F & M soared 49% despite a Drug Emporium opening within a mile. Another F & M showed 21% sales gains despite a Bud's nearby. An F & M across from an A.L. Price is up 17.8%. And a mature F & M in Toledo is growing at a 4% clip despite local competition there.

"The only way a competitor would keep us out of a location is if we are convinced that the only site left is secondary and customers would have to drive past them each time to get to us," Newman said.

He explained his store location strategies while pointing at Detroit and Chicago maps hung on his office wall, which are color-coded to denote income levels. Newman targets educated, well-to-do families who understand his stores'

value concept and can write checks for \$100 worth of goods when they stock up. "Even when our stores are as convenient to lower income shoppers, it's not worth it to them to make the trip because they have little available cash. They buy just what they need," he said.

F & M offers a lot

"If the shopper's question is to eat or buy toiletries, she's a onesy-twosy, not a stock-up shopper. She won't appreciate what a store like F & M can offer," Newman added.

F & M learned through zip code studies last year that some of its stores attract shoppers from 20 miles away. The chain began conducting more refined consumer exit polls in 1987 to help define the high-income pockets that might support further store expansion, he said.

Uniform OTC dating draws fire

U.S. Pharmacopeial weighs quarterly expiration

By Amy Snider

ROCKVILLE, Md. — The U.S. Pharmacopeial, the standards-making body for the drug industry, is weighing a proposal to streamline inventory control chores by creating a uniform quarterly expiration dating standard for all over-the-counter medicines.

As published in USP's *Pharmacopeial Forum* to promote discussion, the proposal calls for limiting manufacturer expiration dates to four "flag months" (March, June, September and December) for all OTC's with a shelf-life greater than 18 months.

The plan was proposed by a pharmacist in Timonium, Md. who said that such a system would both "help to assure" that outdated products are not sold to consumers and simplify inventory control for retailers and wholesalers.

However, pharmaceutical industry leaders are acting quickly to shoot down these arguments, and USP has already received a slew of chilly responses.

The Proprietary Association blasted the plan, claiming that quarterly dating would reduce the effective shelf life of many OTC products by as

much as 60 days and drive up costs to consumers.

"A loss of two months shelf life could seriously impair the ability to ship products to retail outlets, particularly those having a slower turnover (such as) small or remote outlets," according to comments submitted by PA's Manufacturing Controls Committee.

Much costlier

"Additionally, a product having a three-year expiration date could lose 1/18 of its effective life, necessitating an increase in production by that increment to maintain the same sales volume. This would drive costs up proportionately," the Washington, D.C.-based association added.

In echoing PA's concerns, Jerome I. Bodin, associate director of Wallace Laboratories Pharmaceutical Chemistry, predicted that under such a system, many products would have to be discarded one-to-two months before their actual expiration date, while F.R. Brofazi, quality control director for Ciba-Geigy, maintained that a uniform quarterly expiration dating approach would be inconsistent with the comput-

erized dating systems used by many OTC drug manufacturers.

"To change a system which is . . . highly computerized and automated to an arbitrary system solely for the convenience of the retailer and wholesaler does not make sense," he told USP.

This is not the first time pharmaceutical industry leaders have had to tackle suggestions for a uniform expiration dating standard. The American Pharmaceutical Association advanced a similar proposal in the early 60's. Although a few firms at the time did change their policies to meet APhA's suggestion, most industry leaders rejected the plan outright.

Similarly, a decade ago, wholesale drug leaders attempted to persuade industry officials to standardize on a semi-annual dating, a January and July system.

Although a number of OTC drug-makers voluntarily cooperated with the wholesaler plan, Warner-Lambert representative Allan H. Doane told USP that the semi-annual system "didn't work and has been largely abandoned."

TRENDS

Drug chains agree that auto supplies are necessary

Motor oil, antifreeze, chemicals and waxes continue to lead the auto aftermarket departments at many drug stores. Other chains broaden their stance by offering light bulbs, fuses, car vacuums and special accessories.

Whether they devote eight feet or 48 feet, chain merchants seem to agree that auto supplies are necessary to convey a well-rounded and convenient store image.

At Snyder's Drug Stores in Minnesota, for instance, auto departments range from 8 to 12 feet in formats that average only 8,000 square feet. Indeed, some stores are as small as 5,000 square feet.

Buyer Roger Musil emphasizes oils and antifreezes at everyday competitive prices. By avoiding promotions on these items, Snyder doesn't "give the stuff away," he said. Instead, the chain promotes higher grossing items, such as key chains, steering wheel covers, oil drain pans and Armor-All, Musil added.

At Kerr in North Carolina, the strategy is much different. Kerr devotes 16 feet to auto, where oils and antifreezes are



An extensive automotive valley in Osco, Aurora, Colo., is larger and more broadly assorted than most drug chains. Chemical, filters, accessories and appearance items make up the mix.

the fastest-selling items. The chain stocks six different motor oil brands, and "the everyday markup is good, we make a little money," noted buyer Dan McAlister.

Typically modest margins on oil and antifreeze reflect

their use by retailers as traffic builders.

However, Dart Drug Stores commits strongly to automotive on an everyday basis, with 1,000-square-foot departments that include a broad range of products. The

assortment is skewed towards "mostly appearance and safety items," including seat covers, headlights, wiper blades, mini light bulbs and engine chemicals, said assistant vpm-merchandising Ray Crampton.

He noted that Dart is upgrading and changing its auto departments in the drug stores. The chain was last affiliated with Trak Auto in 1984, but still has a lot of the automotive specialty chain's product mix. Dart has "had to reestablish what we wanted to do," Crampton said, referring to its shift towards more consumable items.

At Harco, meanwhile, the affiliation between the chain and Carport auto supply stores still exists. The drug stores carry 48 feet of auto supplies. According to buyer Roger Crain, the drug stores stock everything from motor oil to mirrors to battery accessories. Harco is updating its planogram, Crain said, to give stores a consistent and appropriate product mix. Overall changes have been minimal, he said, but some chemicals have been dropped because the selection was too deep.

Similarly, Perry Drug Stores is affiliated with an auto parts chain, the Auto Works division. The Perry drug stores stock either a 16 foot mini-auto department or a 2,500-square-foot section, which is part of the Perry drug store and auto/home centers. The new Perry prototype calls for the mini layout because Auto Works stores are often in the same market, if not right next door to the drug stores, said buyer Bob Heather.

The 16-foot selection in the mini-auto sections enables Perry to carry a limited 60 sku supply of chemicals, plus waxes in the summer and ice scrapers in the winter. About 25% of the section is taken up by four brands of motor oil, Heather noted.

Perry, which promotes automotive products regularly and has a strong image in this department, often finds auto mechanics visiting its drug store aisles, Heather said. In addition to bringing in non-typical customers, Heather said Perry's selection also allows its typical female customer to make further purchases, while bringing in the "male traffic."

Chains test new coolant

Prestone's new advanced formula antifreeze/coolant reached many drug stores' shelves last month, but automotive buyers report it is too early to determine if the product—and its unique guarantee—will bring incremental sales.

The new seven-metal protection formula comes with a one-year guarantee against coolant-related radiator failure, which Prestone will advertise beginning this summer. To take advantage of the guarantee, customers must buy two gallons of the antifreeze and one jug of Prestone's radiator flush—creating multiple sales for retailers.

At Snyder Drug Stores, buyer Roger Musil, who began stocking the new antifreeze/coolant in July, said "the major issue is the price point." He expects it to be priced 2% to 4% higher than the previous formula.

Snyder promotes Peak

Snyder also carries Peak antifreeze, which Musil said it promotes more regularly than Prestone.

The pricing of Prestone's antifreeze in general has prompted several drug chains to carry other brands. More sharply priced Texaco antifreeze outsells Prestone at Harco, according to buyer Roger Crain. At Kerr, buyer Dan McAlister agreed that Texaco sells at a faster clip than Prestone.

McAlister said Texaco's name recognition and lower pricing generates three times the sales of Prestone. "I don't know if the new formula will make the difference," said McAlister of Prestone's new antifreeze.

Prestone a traffic builder

Prestone's new product may fare better at Dart Drug Stores, in the mid-Atlantic region, where the brand is promoted frequently, according to Ray Crampton, assistant vpm-merchandising. Besides being a traffic builder, Prestone's antifreeze "also brings auto customers into your store," while creating "a lot of tie-in sales," he noted.

Although Dart currently stocks the old antifreeze formula, it expects to stock the new product in the fall.

Thrifty Drug Stores stocked the new Prestone formula in July, displaying it adjacent to the older formula and selling both for \$4.99 a gallon. Positioned on an endcap, at one store location, the antifreeze was promoted with a "special value" sign. The chain also carries Texaco, at \$4.39, and a Thrifty private label antifreeze at \$4.19.

Automotive performance (1986)		
Product	Turns	Gross margins
Motor oil	5.0	20.6%
Additives	8.5	39.5
Antifreeze/coolant	7.8	19.0
Maintenance products	4.9	38.0
Waxes and polishes	4.5	36.2
Air fresheners	6.7	46.7
Filters	4.5	35.7

Source: Reprinted from Aftermarket Business, July 15, 1987

Buyers are mixed over emergency lamp and repair kit

Sylvania's recently introduced Emergency Lamp and Repair Kit—stocking nine miniature auto lights—could find a market in drug stores because it is packaged for gift and impulse purchases.

While North American Phillips had a mail-in offer last year which gave customers a mini-light and fuse package, Sylvania appears to be the first to offer the mini-lighting kit to retailers. General Electric, however, has now fol-

lowed Sylvania by introducing a six-bulb kit.

Reaction to the new Sylvania product from drug store buyers is mixed. Automotive lights sell at drug stores, however, according to a survey obtained by General Electric, which showed drug and grocery stores accounting for 9.8% of sales.

While Sylvania and G.E. kits offer retailers an impulse purchase item, the product could also work for customers who aren't sure which bulb to

buy, pointed out Roger Crain, Harco auto accessory buyer.

Dart, however, will not stock the kit since the chain already inventories a wide selection of individual bulbs, explained Ray Crampton, assistant vice president of merchandise.

Although Dart is not interested in the Sylvania kit, Crampton said the multi-lamp offer could sell well at chains which carry only a limited supply of mini-bulbs.

TRENDS

What's New: Search on all over the world for new

By Richard Lawrence

Three out of every 10 senior U.S. marketers responding to Product Initiatives' annual Innovation Survey in 1987 failed to rate the U.S. among the top three countries for innovations in their category. Japan, West Germany, the United Kingdom, France and Italy are crowding the U.S. in the innovation race.

The tangible reasons for this growing interest in off-shore innovation are sitting on American store shelves. Products such as the nail polishing pen based on Japanese technology for gold and silver inks in felt-tipped markers; aseptic packages for fresher-tasting fruit juices developed in Germany, where energy costs and space limitations have crimped the availability of refrigeration and freezer cabinets; thick chocolate bars, a British product form that came by way of Canada and is targeted at heavy candy-users.

In fact, the list of off-shore inspired ideas grows longer each year. (See chart 1.)

The pace is accelerating.

Richard Lawrence is a partner in Product Initiatives, a new product development company based in Darien, Conn.



Richard Lawrence

Many of the ideas already mentioned were available for years in their country of origin before they were marketed in the U.S. When a U.S. company, Procter & Gamble, expanded its disposable diaper business internationally, it took 11 years to circle the globe. An exercise like that today is likely to take just four to five years.

The worst case scenario for marketers who ignore international developments is that they will be blindsided by new technology. At best, international myopia results in missed opportunities to leapfrog the competition.

For these reasons, we took a look at some of the overseas innovations in drug store products monitored during

the last 12 months by Marketing Service Ltd., a new products-reporting firm based in Naples, N. Y.

We sought ideas that could be built on or used to help develop new products in this country, or, more rarely, translated directly to our market because they fit U.S. consumers' interests. We concentrated on opportunity areas: categories which Marketing Intelligence Service's domestic figures show were booming or lagging in new product activity in 1986.

Altogether, there were 1,302 new health and beauty aid introductions in 1986, a 17.5% increase over 1985. We identified nine opportunity categories.

Four of them accounted for a significant proportion of all H&BA introductions, but had either fewer introductions than the year before or a below average increase in introductions. (See chart 2.)

The other five showed well above average gains in introductions. One, vitamins, also accounted for a significant proportion of total H&BA introductions. (See chart 3.)

Hair care

In a previous column, we discussed the difficulty of developing new products in hair care, especially the risks of

Off-shore innovation

Before 1980

Freeze-dried coffee
Disposable razors
Disposable lighters

1980 and since

Liquid soap
Deo-colognes
Hair care mousses
Pump dispensers
White chocolate bars
Aspartame

trying to magnify product-based differences that barely exist. Some recent foreign introductions show how positioning can be used to create competitive differences.

Regular medicated shampoos can be seen as too strong for everyday use. Beecham in the U.K. tackles the problem nicely with a new line extension of its Vosene medicated brand, Vosene Frequent Wash Mildly Medicated Shampoo.

Changes in packaging and form can give "me-too" products a lifestyle advantage by making them more portable, convenient or easy to apply.

Stico by Limoni Guarino e Figli is a natural hair coloring stick which comes in nine shades. Coloring or highlight-

ing your hair becomes as simple as applying lipstick.

The Japanese have adopted the stick form for a hair and scalp tonic. The porous polyester tip of New Leaf G Stick from Milbon dispenses the tonic as it is pressed against the hair and scalp and acts as a massager; a boon for users who don't want, or who are not in a situation to get their hands messy.

Dark and Lovely Signal Neutralizing Conditioning Shampoo from the United Kingdom incorporates an idea that could be adapted and used more broadly than in ethnic hair care. The product is designed as companion to Aqua Tex hair relaxer. The shampoo turns white to signal that all the relaxer has been removed; if there are traces left in the hair, the shampoo remains pink.

Cosmetics

Self-enhancement is a driving force in the use of cosmetics to make the best of one's physical attributes and create a unique personal statement. Marketers supply their products in a wide range of colors and forms to match as far as possible the infinite variety of those personal statements.

Jeanne Gatineau in France goes the logical next step. Their Ecrins De Beaute eye-



products

shadow is a do-it-yourself kit of six colors with a mixing bowl.

Japan's Kanebo company has used the same create-your-own color idea in nail color with its 7 Nail Color Set.

Fragrances

Parfumeurs create many new fragrances to further augment existing markets, but their innovations rarely involve totally new markets or new forms and uses.

This is not so with Maelle by Irene Croyeux in France. This fragrance for young children and babies is alcohol-free and has been subjected to dermatological ocular testing. Varieties include honeysuckle, sweet mulberry, mandarin and lemon.

Kaori Mogatari from Japan is a fragrance lasting 3-7 days that can be applied to jewelry, letters, cards, and wrapping. We're intrigued by this new use which has the potential to make objects more distinctly personal, memorable and evocative.

We also spotted a form innovation in fragrances from Italy. Parfumousse by Atkinsons is akin to a deo-cologne since it's designed for all-over body freshness and fragrance. However, it is a light, oil-free mousse that is rubbed into the skin rather than a spray.

Four main H&BA introduction categories			
	1986 introductions	Share of total H&BA%	% change
Hair care	206	15.8%	- 2.8%
Skin care	147	11.3	+ 15.7
Cosmetics	139	10.7	- 4.2
Fragrances	85	6.5	+ 10.4

Vitamins

U.S. vitamin marketers have demonstrated lots of ingenuity in formulating and positioning new offerings for a staggering variety of user groups, conditions and situations. Overseas marketers don't have much to offer that hasn't been tried here. We did spot Controvite Fe in Australia, a vitamin and iron supplement for women taking oral contraceptives. Also from Australia is Vitamist, a line of vitamins in a rapidly absorbed mouth spray form. Similar products have been marketed in the U.S., but we particularly liked the positioning of some of the Australian products like a vitamin C and zinc version for colds.

Bath products

Bathrooms are becoming a larger and more important feature of American homes. Despite tight schedules, people are spending more time in these home-spas. New products catering to this market for relaxation and well-being are booming.

Communal bathing and its rituals are part of the Japanese culture. Many Japanese bath products claim more therapeutic than cosmetic benefits. One that could be relevant here is Bub, which carbonates the bath water. The action is claimed to stimulate the circulation.

Sun care

Innovation in the U.S. sun-care market involves escalating SPF formulations—now into the 30s—and zinc oxides in fashion colors.

Overseas approaches that are different include Jamaica Touch from Switzerland, formulated and positioned for outdoor and artificial tanning; Piz Buin Cacao from Germany, formulated for the thinner layers and different Ph of children's skin, and Roc Total Sunblock (United Kingdom) and Intercept (Japan) that are formulated for protection against UV-A and UV-B rays.

Diet aids

Conventional diet aids reduce or prevent consumption

Five other H&BA introduction categories			
	1986 introductions	Share of total H&BA%	% change
Vitamins	159	12.2%	+ 156.4%
Bath products	49	3.8	+ 133.3
Sun care	58	4.4	+ 81.2
Diet aids	43	3.3	+ 59.2
Baby products	37	2.8	+ 42.3

of undesirable calories and foods by altering the metabolism, numbing the taste buds or producing a feeling of fullness.

A Japanese product, Saltrin, takes a different approach. It allows people concerned about salt to eat all they want. Made from an edible marine plant, Saltrin combines with the sodium in ordinary foods and allows it to pass through the system. The product is sprinkled on food.

Baby products

There's been a renewed interest and activity in the baby market since the baby boomers started producing their own offspring.

Overseas, the Japanese still seem to lead developments in super-absorbent technology. Unicharm's new Mamy Poko and Moony disposable diapers use a macromolecular absorbent and can hold 800 mls. of liquid. The aptly named Catch Sheet by Nishiki is a diaper liner that forms a gel when wet and reduces the need for

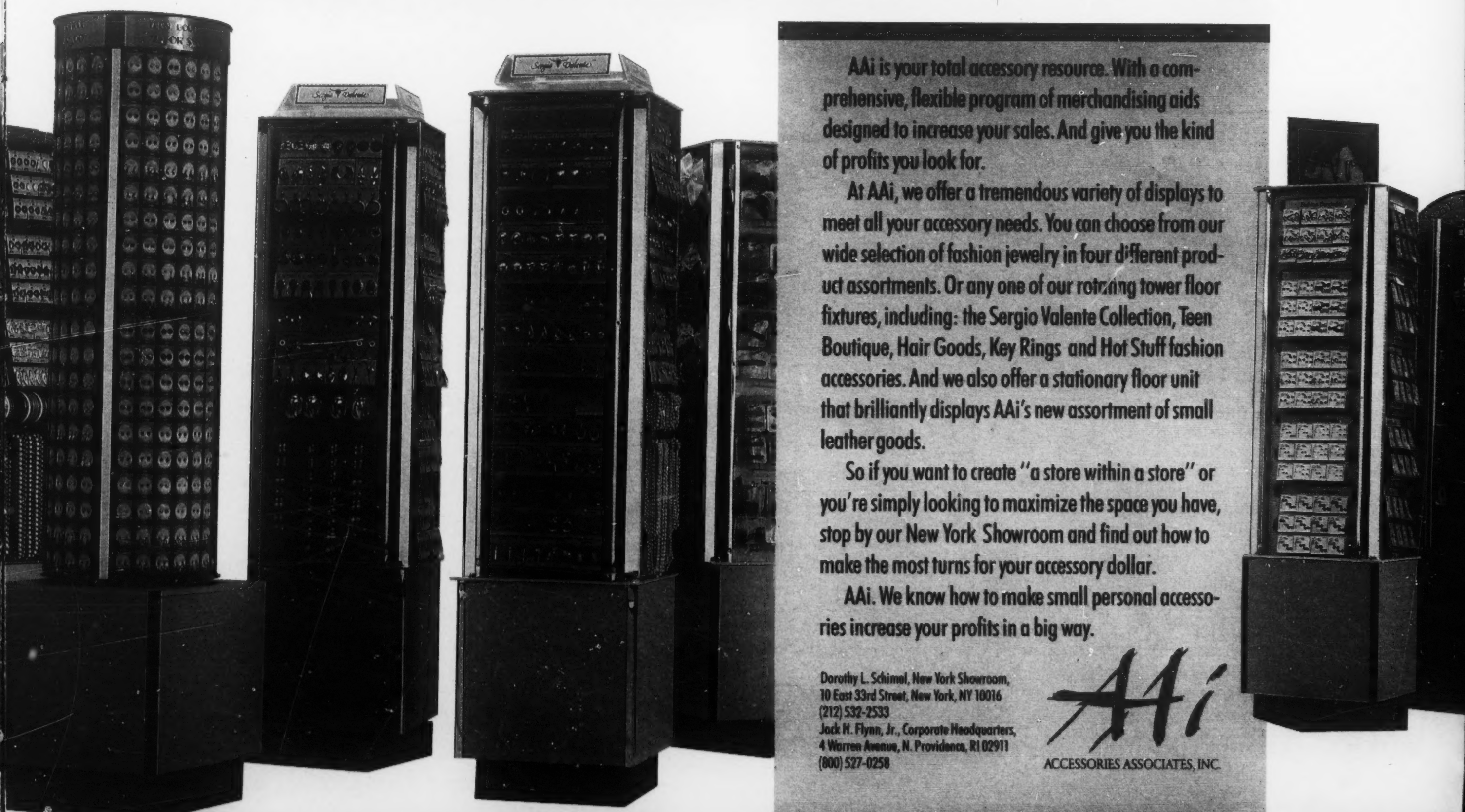
diaper changes.

From Germany, for mothers who don't want to chance their sense of touch when it comes to gauging the temperature of the baby's bottle, there's Nuk Baby Bottle Thermometer. It's made of unbreakable glass with a long stem so the thermometer doesn't have to be removed from the bottle to read the scale.

Certainly not all of these overseas ideas are directly translatable to our market. Many would have to be reworked or built on. The key is that they are relevant stimuli for U.S. development.

The failure rate for new products in the market place is eight out of 10. Maybe one in 600 initial ideas makes it to the market. The more relevant ideas that can be generated up front, the more you can mix, match and test to get the variables right. And you can do it inexpensively, at little risk. Scanning the world for ideas is a vital part of this approach.

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Arthritis drugs are a problem for researchers

When Suprol was taken off the market a few months ago because of reports that some patients developed flank pain as a side effect, it was the most recent of a string of problems with drugs for arthritis.

The Public Citizen Health Research Group has focused attention on the occurrence of peptic ulcers with Feldene and there was even a scare with the drug, isoxicam, which Warner-Lambert was marketing in Europe for arthritis. Even though Lyell's Syndrome, the skin disease linked to the drug, was traced to a by-product of the manufacturing process, it was still more bad publicity for drugs that fight arthritis.

While rheumatoid arthritis makes those kind of headlines, it rarely makes headlines about medical breakthroughs. Rheumatoid arthritis affects 7 million Americans (see chart), but the most common treatment for this disease is still non-steroidal anti-inflammatory drugs (NSAIDS) which treat the inflammation and pain of arthritis and not the underlying cause.

"Rheumatoid arthritis cripples, it doesn't kill," said Roland Moskowitz, professor of medicine at Case Western Reserve University in Cleveland, explaining why drug research in this area tends to be less aggressive. "You're less willing to take higher risks with innovative drugs than with AIDS which is 100% fatal, or with cancer."

Disease-modifying drugs

In the future, physicians treating rheumatoid arthritis will increasingly turn to drugs that are disease-modifying, that is, that slow the degenerative process of the disease. Examples of drugs believed to be disease-modifying and being prescribed now are Cuprimine (Penicillamine), Methotrexate (Sodium Parenteral), Azulfidine (sulfasalazine), Plaquenil (hydroxychloroquine sulfate), Sandimmune (cyclosporine), Cytosan (cyclophosphamide) and Imuran (Azathioprine). Gold, a well-respected treatment for arthritis in injectable form, in recent years has become available in oral form (Smith Kline & French's Ridaura (auranofin)).

One of the major trends in recent years has been the more frequent use of Methotrexate, according to Dr. Moskowitz, who describes results as very good. He adds that liver fibrosis as a complication has not been a major problem. Dr. Moskowitz said that Imuran is "less attractive because it suppresses the marrow" and many of the other drugs are too toxic or too investigational. Another major trend has been the use of combinations of second-line drugs, much like in cancer therapy. Methotrexate may be combined with gold, Imuran, or other disease-modifying drugs.

Lederle, the manufacturer

of Methotrexate, a drug traditionally used for cancer and leukemia, is now awaiting final FDA approval for the use of Methotrexate for arthritis. More than half of Methotrexate tablets are now used for arthritis. The drug received FDA approval for use in severe cases of psoriasis in 1981, according to Jeff Hoyak, spokesman for Lederle. Dosage for arthritis is much lower than for cancer and leukemia. Arthritis patients take 5-15mg of Methotrexate once a week. Some doctors have patients take it in a single dose or in a few doses every 12 hours. According to the literature, side effects at that dosage are

U.S. arthritis population	
Osteoarthritis	16 million
Ankylosing spondylitis	2.5 million
Lupus	100,000
Source: National Arthritis Foundation, 1987 data	

relatively mild gastrointestinal effects and elevated liver enzyme levels, which may indicate liver damage but are often transient. Patient selection is important and those

with existing liver and kidney problems or heavy drinkers should not be placed on the drug.

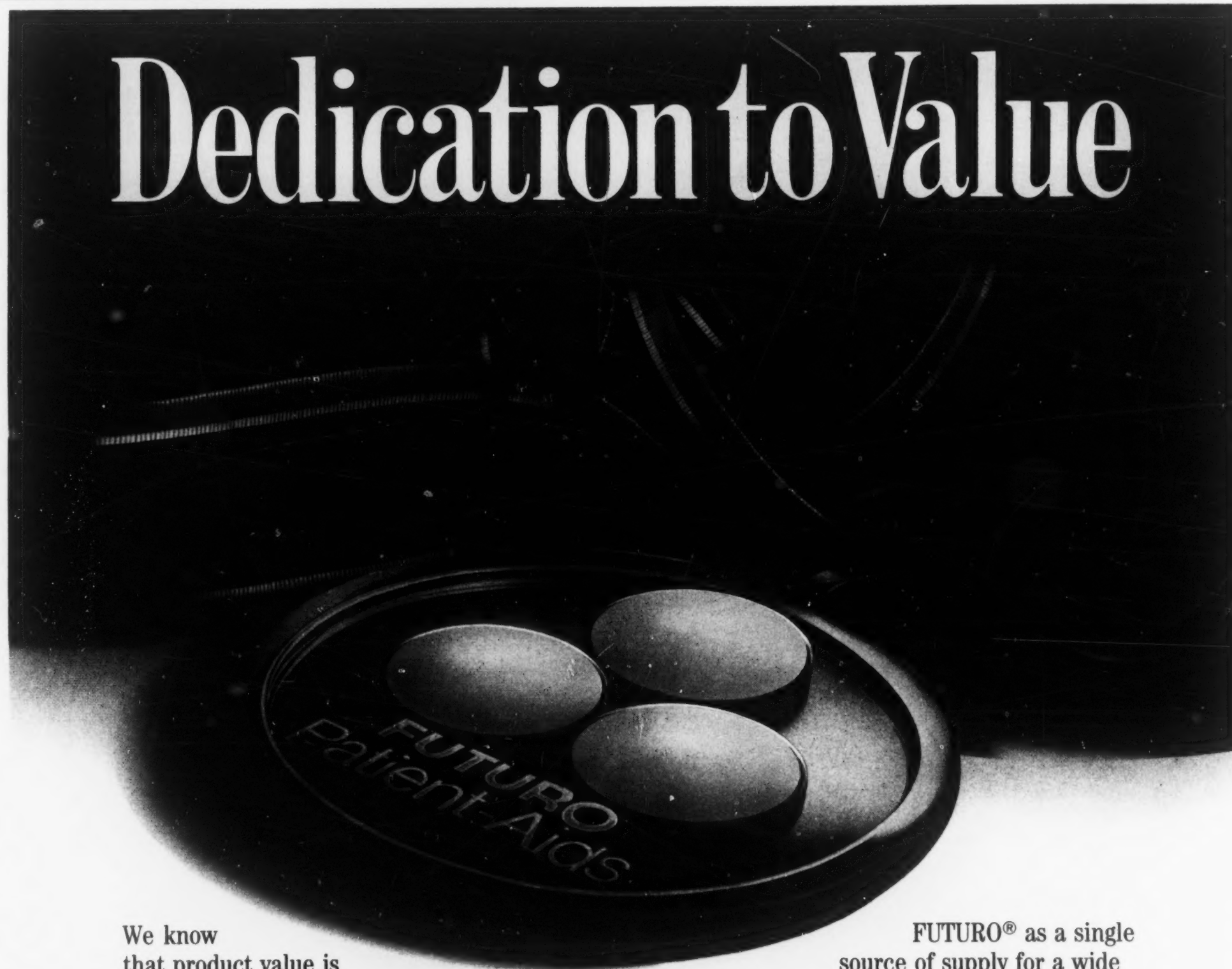
Daniel Furst, clinical professor of medicine and rheu-

matology at the University of Medicine and Dentistry of New Jersey, believes that liver fibrosis may be more of a problem in the future; the drug has only been in general use for arthritis in the last three to four years.

Dr. Furst said he believes the reason there have not been more breakthroughs in arthritis treatment is that while "there have been excellent animal models (of arthritis) for aspirin-like drugs like NSAIDS, there are none for the more disease-modifying drugs."

Some of the promising areas for arthritis, Dr. Furst said, *Continued from page IP16*

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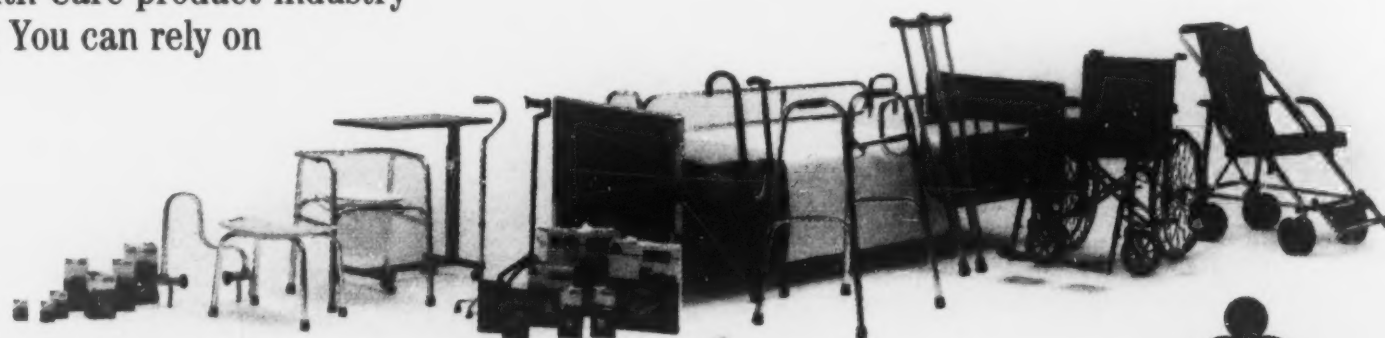
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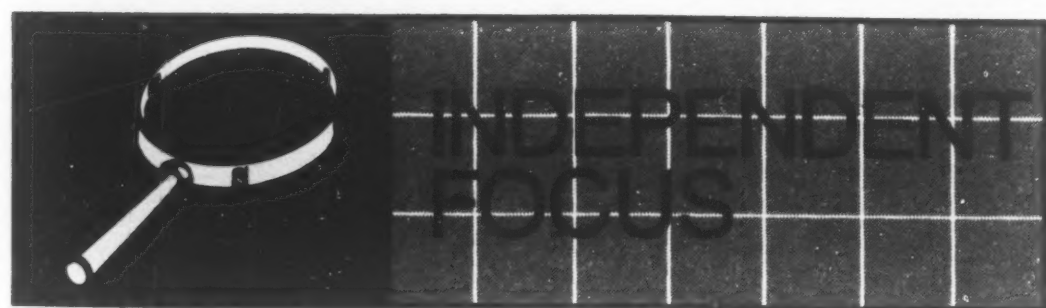
Circle #005 on Reader Service Card

Landmark drug unit moves, doubles volume

CALDWELL, Ohio — Jim Braden has big shoes to fill here, those of his father-in-law, Bill Gillespie.

Braden married Gillespie's daughter, Di Anna, after they met at Ohio Northern University. He and his wife now run Gillespie's drug store, which had been a landmark on Caldwell's town square since the Depression. Gillespie's has changed in almost every way but in its name, however, since the Bradens moved from the town square two years ago.

But Di Anna still likes to talk about her father: How he closed his drug store for two



years to join the Navy after Pearl Harbor was bombed on Dec. 7, 1941, and how he graduated from pharmacy school when he was 48, the same year Di Anna graduated from high school. Some people in Caldwell thought he was too old to be going to pharmacy school, especially as he already owned a drug store; Di Anna is glad he proved them wrong.

The Bradens moved to a 6,000-square-foot space on the main road going out of town two years ago, spending \$250,000 to renovate an auto dealer's building. Jim Braden said that while the old location had sentimental value, he and his wife decided to make the move for more parking and to increase the amount of space available for front-end merchandise.

Caldwell has a population of only 2,000, and the Bradens saw an opportunity to become a hub for general merchandise. They report that they have succeeded. Last year, Jim Braden said, the store topped \$1 million in sales for the first time, about double the sales of the old store.

Big card business

Gillespie's is a popular place to shop for a wedding gift, and the store devotes 2,500 square feet to greeting cards. "Because of our selection, we get 95% of the card business," Jim Braden said.

Although Caldwell has a small population, Gillespie's draws customers from a base of about 11,000 from other towns in Noble County. The local economy has been depressed in recent years, but the Bradens report that while

the area has lagged behind other areas in economic recovery, new industries are beginning to move in, improving the employment picture.

Di Anna has found that one of the biggest traffic builders for Gillespie's is the lowest-priced soda in town. She has priced 12-can cases at \$2.99, with a penny profit. The grocery stores are "mad at us," she said, "but I tell them, 'If you drop your drug line, I'll get rid of my soda pop.'" She's been selling up to 200 cases per week.

Another draw is Gillespie's prerecorded video department. Through the Family Independent Pharmacy (FIP) program and its distributor, Kauffman-Lattimer in Columbus, Ohio, part of Alco Health Services, Gillespie's gets a monthly shipment of videos to update their selection. The Bradens rent videos for \$2 each and \$1 for a second tape on weekdays, and \$3 each and \$2 for a second tape on weekends. They also have five video recorders to rent.

For Mother's Day, also through FIP, Gillespie's had a drawing for a dozen roses and a free video every week for a year; for Father's Day, the prize was a fishing pole and a free video every week.

Gillespie's runs monthly sales with FIP circulars and special merchandise. For its small-town customers, who have a limited selection of stores in their area, Gillespie's takes orders on a gift and appliance catalog through FIP.



Jim Braden fills more than 40 prescriptions a day for an osteopath who rents space next to the store.

Customers pick up their copy of the catalog at the store once a year, and Gillespie's receives the item 24 hours after the order is placed.

Home health care business

Kauffman-Lattimer will also deliver a selection of home health care items 24 hours after ordering, which allows Gillespie's to offer home health care merchandise without devoting a lot of floor space to it. Di Anna said Gillespie's has been building up home health care since the move and that she would consider expanding someday to have a separate home health care center.

One of the town's three doctors leases space from the Bradens for his office next door, and Jim says that Gillespie's gets up to 40 prescriptions per day from his patients. Di Anna said that efforts are under way to bring another doctor to the town.

Jim said Gillespie's fills about 135 prescriptions daily. His business is currently 60% front end and 40% prescription, the reverse of what it was before the move.

About 8% of his prescription business comes from third party and 30% from the state Medicaid program. The Bradens compete with another pharmacist who is on the town square and with many of the Noble County doctors, who have traditionally dispensed many of their own prescriptions.

It is not uncommon for the Bradens, who haven't had a vacation in four years, to work six or seven days per week. Gillespie's is open from 8 a.m. to 8 p.m. Monday through Friday, from 8 a.m. to 5 p.m. Saturday, and from 9 a.m. to 3 p.m. Sunday.

The Bradens say there is a pharmacist shortage in southeastern Ohio, but relief for them is on the way: Their son has just completed pharmacy school and is expected to pass the Ohio boards in August. Until now, the Bradens have used interns and pharmacy technicians for help behind the pharmacy counter.

When their son joins them, they plan to take something long overdue—a vacation.



The Bradens spent \$250,000 renovating an auto dealership building on the main road out of town to get more space.

No miracle drugs seen on horizon for arthritis

Continued from page IP13

are diet modification and fish oil, which may interfere with the breakdown of arachidonic acid, found in many joint membranes, and which is a precursor of prostaglandins, believed to be a key player in arthritic inflammation. The amount of fish oil that would have a therapeutic effect, at this moment, appears to be "huge," however, said Dr. Furst.

Work is also being done with monoclonal antibodies and with interferon in the treatment of arthritis, but while Dr. Furst believes interferon is only "moderately effective and quite toxic," he is

optimistic about the possibilities for monoclonal antibodies. Dr. Furst also is optimistic about the potential of substituted sugars, Vitamin A relatives and immunosuppressors for the treatment of arthritis.

While there may be no "miracle drugs" on the horizon, Dr. Furst believes researchers are finding out how "to target our drugs better." For instance, doctors may be able to

target drugs to macrophages or T-suppressor cells only; T-suppressor cells are believed to be very important in rheumatoid arthritis.

A drug from a small Connecticut company, Greenwich Pharmaceuticals, now in clinical trials, is stimulating interest among rheumatologists. Therafectin (amiprilose HCl) is reported to have significant effect on decreasing joint pain

and swelling. Dr. Furst said it is not understood how this sugar derivative may work in the treatment of rheumatoid arthritis. Another promising drug, he said, is Ebselen, developed by a German company. A peroxidase which mimics the peroxidase in the joint membranes, Ebselen might work by breaking down inflammatory products before they can do any harm.

Antiarthritics U.S. retail pharmacy sales 1986 vs. 1985

Product	Share			1986 sales	
	'85	'86	% change	\$(mil.)	% change
Naprosyn	22	25	+3	260.1	+ 12
Feldene	23	20	-3	210.8	- 12
Cilnori	12	12	—	131.0	+ 1
Motrin	11	12	+1	123.6	+ 3
Indocin	10	8	-2	81.3	- 24
Nalfon	4	4	—	42.9	+ 2
Tolectin	5	4	-1	42.8	- 13
Meclofen	3	3	—	31.7	+ 1
Rufen	5	2	-3	24.5	- 48
Orudis	0	1	+1	14.5	—
Ridaura	0	1	+1	9.0	+149

Source: Pharmaceutical Data Services, 1987 Wall Street Meeting

For news about recent federal legislation extending Medicare coverage to outpatient drugs, see P. IP40

PHARMACY

Ibuprofen sparks analgesics market

The market for analgesics has enjoyed strong and steady sales gains over the past two years, due in large part to the success of over-the-counter ibuprofen products and low-cost private label alternatives. Much of the category's gains, however, have been restricted to a few key brands.

The approval of ibuprofen-based pain relievers for non-prescription sale two years ago has been the key to the category's strong continued growth, pegged by A.C. Nielsen at 10% over a recent 12-month period. Strong consumer acceptance of Tylenol caplets, a few other key brands and private label alternatives have also sparked the sales boom.

According to Nielsen research, combined sales of OTC pain relievers grew to \$1.88 billion in the 12 months ended February 1987, compared with \$1.71 billion the previous year. Retailers see a continuation of that trend.

Private labels sell

"There will always be a big market for pain relievers, but most of the growth has been in Advil, Nuprin and a few other products," noted one chain drug buyer. "We've also done extremely well with our private label."

Consumers have taken quickly to the new generation of powerful, ibuprofen-based OTC pain relievers, which until recently were available only by prescription. Of the flood of ibuprofen formulas now on the market, however, Whitehall Labs' Advil and Bristol-Myers' Nuprin seem to have locked up much of the demand.

"Advil is the single hottest analgesic I stock right now," said Guy DeLuca, OTC and H&BA buyer for Douglas Drug, which is based in North Providence, R.I. "Nuprin has also had a definite revival. With the rest of the ibuprofen brands, there's not as much success as people expected, however."

Advil over Nuprin

"Advil has been doing very well," agreed George Tack, drug buyer for Thayer Pharmacies in Stoughton, Mass. "Nuprin is also doing well, but it's probably only selling about one-third to one-half as well as Advil. I think it could be related to advertising."

DeLuca predicted that the success of the ibuprofen segment of the market would eventually lead to a broad shift in the analgesics market. "I think we're moving toward an even three-way split in the market, with a third each in sales going to aspirin, acetaminophen and ibuprofen," he said. "Almost all the expansion seems to be in ibuprofen."

McNeil Lab's Tylenol, however, remains a powerful leader in the analgesic market after rebounding successfully from product-tampering scares earlier in the decade.

Tylenol remains leader

According to a *Drug Store News* survey of top OTC and H&BA products, Tylenol Extra-Strength Caplets remain No. 1 in the nation's chain drug stores in sales volume, profits and unit sales. The non-aspirin product also remains the leader in children's analgesics.

"Tylenol's growth has kind

of leveled off against all the competition from ibuprofen, but it's still our biggest seller when you combine all its sku's," noted Tack.

Tylenol overcame a devastating blow during the tampering scare when it shifted away from capsules and pioneered the use of caplets, thus regaining its market lead. Other brands have followed its move into caplets with far less success, leading to a proliferation of sku's and a squeeze on shelf space as caplets and tablets under the same brand names compete for space.

Customers not responding

"There has been a flood of caplets from a lot of the brands since everyone saw how well Tylenol has done, and I don't think it has done anything at all for the category," said one buyer. "I find it ludicrous, since tablets with the same dosage strengths are smaller and a lot easier to swallow. It's just cluttering up the category, and with the exception of Tylenol, customers are just not responding. It's the same thing that happened with capsules even before the tampering problems."

According to the same buyer, analgesic formulas for arthritis pain are also on the way down. "Obviously, people suffering from arthritis are taking something, but I think the ibuprofen products are absorbing a lot of that business," he said.

The split in the analgesic market between non-aspirin and aspirin formulas, however, also reflects widespread publicity over some of the problems associated with as-

pirin over the past several years.

Success of aspirins

Nevertheless, the recent approval by the FDA of new indications for aspirin for heart attack victims and others with unstable angina has bolstered sales of Bayer and other aspirin formulas. Bayer, which submitted original data on the success of aspirin in reducing the risk of heart attacks, has been the strongest proponent of the new findings.

"If I was the maker of Bayer, I'd be devoting a huge ad campaign to this," noted DeLuca. "I haven't seen any impact on their sales yet since the FDA's finding."

One other bright spot in analgesics is the demand for private label brands, which customers seem to trust as equal in quality and efficacy despite their lower price. Said one buyer: "Item for item, private label aspirin has been outselling the branded products in our stores for years, at least in units. The price difference is important."

Business goes well

Thayer's Tack agreed. "We move a lot of our own private label products, but it doesn't seem to be hurting sales of our branded pain relievers. I don't know where that business is coming from, but it's doing very well."

In terms of profitability, analgesics remain a highly price-competitive market, say retailers. "Some of the hot sellers often generate gross margins that are down in the teens," said DeLuca. "It's very competitive between stores."

OTC analgesic sales

Dollar volume (in millions) and market share



Mass merchandisers

\$182.4
9.7%

12 months ended 2/87
Source: A.C. Nielsen

Store type	Share change from prior year	% increase over prior year
Supermarkets	0.4%	10.8%
Mass merchandisers	-0.1	8.6
Total	—	10.0

Retailers also complain about the proliferation of products. "I can't see why a company needs to put out 18 different sizes of the same brand," noted one buyer. "It's too confusing."

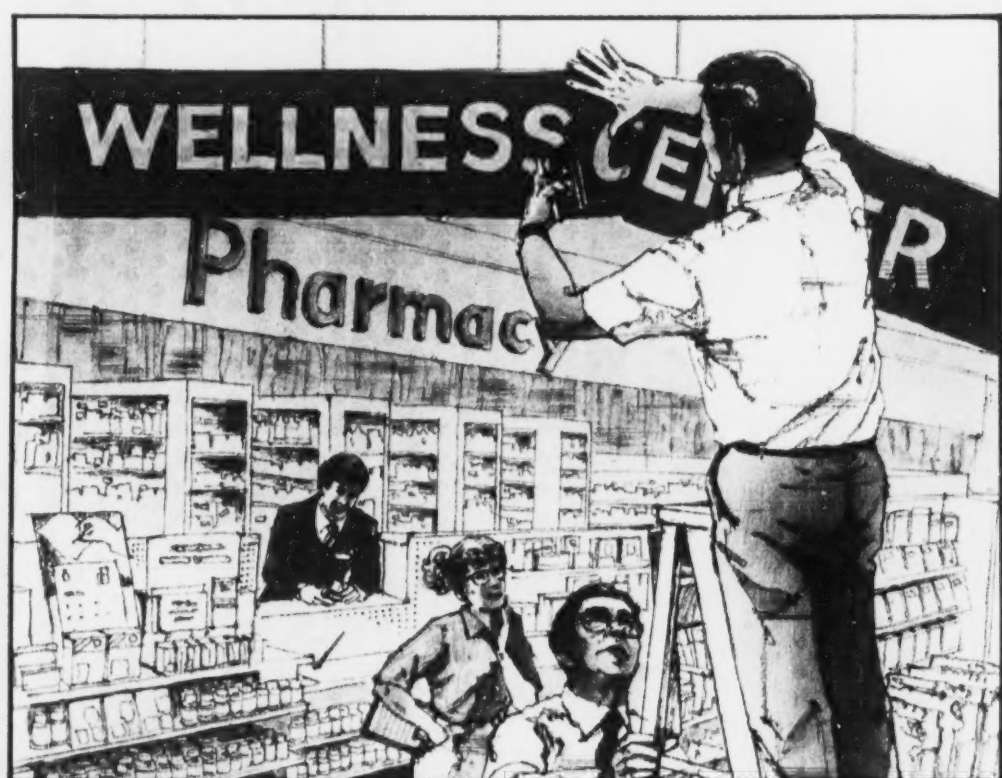
Nevertheless, merchandisers don't want to pare shelf offerings in analgesics and risk offending loyal customers.

"Even if I only sell a particular brand of pain reliever to a few customers, they come into my store expecting to find it," noted one buyer. "If I no longer carry it, I'm going to lose that customer. It's not worth it to save a little shelf space."



DRUG STORE NEWS®

Vol. 9/No. 18 Serving chains, wholesalers and high-volume independents for 58 years. Published by Lebhar-Friedman Inc. September 14, 1987



Wellness revolution

Something new is happening in drug stores these days. Healthcare has a new partner in *wellcare*. *Drug Store News* examines the wellness trend...from market research to merchandising, home diagnostics to in-store health screening. What does wellness hold for the future? Coverage starts on page **77**

Revco divesting Carls

Sale to trim debt

By Jim Frederick

ROME, N.Y.—In a long-expected move, Revco D.S. has struck a deal to sell its Carls Drug Co. subsidiary to a group of investors, including senior members of Carls' management team. The agreement, announced in mid-August, marks the first time since 1980 that the upstate New York drug chain faces the future as an independent company.

Revco Executive vp Marc Dworkin, who has served as Carls' president since soon after Revco bought the 45-unit drug chain two years ago, will not take part in the leveraged buyout. "Absolutely not," he told *Drug Store News*, adding that he intends to remain with Revco in his current position.

Revco signed a letter of in-

tent for the sale of Carls after searching for a buyer for the chain for several months. Salomon Brothers, which was instrumental in lining up financing for a management-led LBO of Revco itself last December, acted as Revco's financial adviser and broker in the sale of Carls.

The purchase price was not disclosed. Revco paid \$35 million for Carls when it bought the chain from Pneumo Corp., a division of IC Industries, in July 1985, outbidding several other drug chains. However, Carls had been on the selling block for several months, and some investment analysts had expressed doubt that Revco would easily recoup its original purchase price in today's market, which has been saturated with available drug



Tod Bogan:
No major changes

stores as prospective buyers—like Rite Aid and Walgreens—have turned from acquisitions to consolidation to digest previous purchases.

Revco has also been under intense, self-imposed pressure. See *Revco*, page 97

Small stores in Pay 'n Save's future

SEATTLE—The changes instituted by the new Pay 'n Save regime are not over yet, as evidenced by the company's latest announcement that it plans to roll out a Pay 'n Save Limited concept.

Designed to take advantage of small, convenient locations, the Limited stores will extend Pay 'n Save's coverage in established markets, according to Haven Ready, senior vp-operations and stores, and a member of the chain's new management under ceo Gerald Nathanson.

Ready said the addition of the word "Limited" will allow Pay 'n Save to take advantage of its well-known name—much the same as Thrifty has

done with its Jr. stores.

Announcement of the Limited format came as the company reported its plans to acquire six G.O. Guy drug stores from Renton, Wash.-based Bonanza Stores. The acquisi-

tion price was not disclosed by Pay 'n Save, but the company said the sale is expected to close at the end of this month.

The G.O. Guy stores—ranging in size from 2,400 square feet to 8,000 square

feet—will probably be switched to the Pay 'n Save Limited name by October, Ready said. Of the six, three are located in downtown Seattle, while the remaining sites

See *Pay 'n Save*, page 97

Kare Rx expands under National

ST. LOUIS — National Supermarkets, locked in a struggle for market leadership here with rival food chain Schnuck's, is rapidly expanding its commitment to pharmacy since buying 26 Kroger supermarkets here last fall, including 10 with pharmacies.

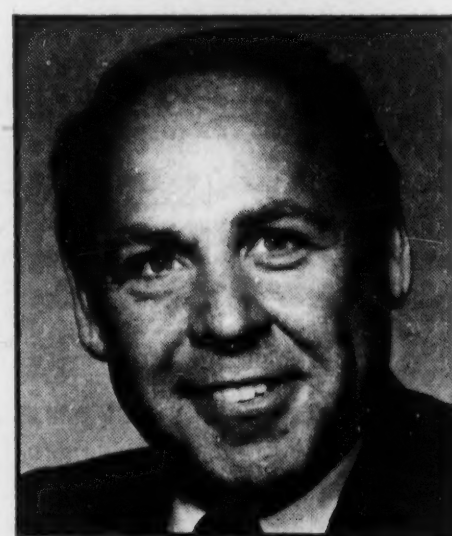
Under its Kare Pharmacies

logo, National now operates prescription centers in 31 of its 61 supermarkets, and will add another 10 to 15 in the next year in new and remodeled units.

"All our new stores will have Kare pharmacies from now on," said Jerry Callahan, director of pharmacy opera-

tions. "There is more profit for us in H&BA and general merchandise than in food, and we want to use our pharmacies themselves as profit centers rather than just traffic-builders."

Apparently, Kare pharmacies are already meeting both See *Kare*, page 97



Arbor's Applebaum:
Loving Michigan

Arbor: Goodbye Carolinas

TROY, Mich.—Arbor Drugs has pulled out of North and South Carolina, selling three of its four stores in those states to Eckerd Drug and subleasing the fourth unit to a non-drug operation.

The unexpected move, announced in mid-August, marked the end of a two-year attempt by Arbor to operate stores far from its market base in greater Detroit and southeastern Michigan.

The pullback also signals a growing belief among Arbor managers in the renewed vitality of See *Arbor*, page 97

LATE NEWS

• SACRAMENTO, Calif.—Price Rite Stores, a newly-formed company, announced it will open stores which blend the membership wholesale club concept with that of traditional deep discounting. The first store is set to open here in December.

• SALT LAKE CITY—American Stores, parent company of Osco Drugs, reported net income rose 10.6% to \$36.5 million, or 98¢ a share, in the second quarter ended Aug. 1. Sales remained essentially flat at \$3.54 billion.

• LIVERPOOL, N.Y. — Fay's earnings for the second quarter ended July 31 rose 9.6% to \$1.2 million, or 9¢ a share, from a year earlier. Sales were up 14% to \$124.4 million. Six-month earnings were \$1.3 million on sales of \$235 million vs. \$3,000 and \$216 million a year ago.

Douglas slates opening of unique closeout store

NORTH PROVIDENCE, R.I.—Markdowns are inevitable in merchandising. But Douglas Drug, a chain of 14 upscale super drug stores, will soon test a unique way to eliminate the damage they can inflict on store image.

It will open The Saturday Store in October or January, a 3,500-square-foot closeout vehicle to "keep stores cleaner of merchandise that has almost no value," Patrick McCaf-

ferty, director of merchandising, told *Drug Store News*.

This radical approach won't salvage extra profits from the goods, but will improve the looks of Douglas's mainstream stores. Chain President John Haronian "is image-conscious. It bothers him when he has a mistake at retail. So he developed this idea," McCafferty said.

The closeout store, slated to See *Douglas*, page 97

NEWS IN BRIEF

Wil-Car to build new distribution center

PORTSMOUTH, Ohio—Wil-Car Enterprises, owner of the Wil-Car H&BA and sundry store chain, has announced plans for a new 193,000-square-foot distribution center that will position it for expanding its wholesale and retail businesses. Construction and design contracts have been awarded.

The unit is planned for an 18-acre site near Portsmouth, and will triple Wil-Car's dc volume. It will allow improved service to the 58 Wil-Car corporately-owned and franchised stores, and for Wil-Car's wholesale operations, which supply the chain and about 1,200 other independent retail stores. The new facility positions Wil-Car to add 25 stores in the next two years.

The unit, which will include 14,000 square feet of offices, replaces a 360,000-square-foot dc located in a five-story building in downtown Portsmouth. Scheduled to open in April, it will feature computerized handling equipment and management procedures.

Threats force Advil off Chicago shelves

CHICAGO—Osco Drug has pulled all packages of Advil from the shelves of its Chicago-area drug stores following tampering threats made by an anonymous caller August 21.

The precautionary removal was touched off by two calls to an Osco store on North Pueblo Avenue in Chicago, in which a male caller warned that he had tampered with Advil packages in about 20 Osco drug stores. The man said the tamperings would continue until a cure for AIDS was discovered.

A spokesperson for the FDA's office of consumer affairs noted that the threats appeared to be a hoax, but the FBI was notified and Advil product from the stores was being examined for signs of tampering. Like other OTC medications, Advil packages are safety-sealed in plastic.

Osco President Dick George said such incidents were not uncommon, but he said the company was taking the threats seriously. "This kind of threat happens fairly often, but you have to be careful," he noted. "People are checking the packages now, and when we put Advil back on our shelves, it'll be different product."

OCP to gain majority share of Ketchum

NORWALK, Conn.—Ketchum & Co., the tenth-largest drug wholesaler in the United States, is selling a majority ownership share to Europe's largest drug wholesaler. The sale will give Ketchum capital and technical expertise it will use to help rebuild its bottom line, Ketchum President Robert Edinger told *Drug Store News*.

According to Ketchum, Office Commercial Pharmaceutique of Paris, France, will gain a majority position by buying 417,576 common shares of Ketchum for \$10 a share from InterWest Corp., a Dallas real estate developer.

OCP, in addition, has a letter of intent to buy an additional 436,900 authorized shares, also at \$10 a share. It would then control 854,476 of the company's 1.7 million outstanding shares—just over 50%—and will have a majority on its 10-seat board of directors.

The company, jointly with Ketchum's bank, will also arrange a \$4 million loan for working capital.

OCP, with \$2.7 billion in sales last year, had 38% of the French drug market, and supplies 17,000 of France's 22,000 drug stores.

INDEX

Beauty Beat	45	Lawrence Column . . .	94
Category in Motion . .	46	People in the News . .	8
Editorial	6	Pharmacy	59
Financial	98	Product Updates . . .	50
From Over the Counter	64	Wellness	77
Gladson: Manager		Wholesaler: Annual	
Training	20	Report	23

Drug Store News (ISSN 0191-7587), is published biweekly—every other Monday, monthly in December plus extra Pharmacist's Reference issue in April, as well as an extra Annual Pharmacists Guide to OTC Patient Counseling in October, by Lehar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Subscription rates: Infield subscribers, retailers and wholesalers, one year \$19.50; two years \$35. Out-of-field subscribers, manufacturers, schools, libraries and all others, one year \$39. Single copy rate \$2. Foreign subscriptions: Airmail only \$125 per year.

Second-class postage paid at New York, N.Y. and additional mailing offices. Copyright © 1987 by Lehar-Friedman Inc. All rights reserved. POSTMASTER: Please send address changes to Subscription Dept., Drug Store News, 305 Madison Ave., Suite 535, New York, N.Y. 10165-0079. For change of address six weeks notice to Subscription Dept., 305 Madison Ave., Suite 535, New York, N.Y. 10165-0079 is requested. Give old and new address and zip code. If possible, enclose address portion from cover on previous issue. Vol. 9, No. 18 September 14, 1987

Eckerd bets Florida lottery will aid convenience image

Chain applies for licenses for all 497 stores in the state

CLEARWATER, Fla.—Eckerd is betting on Florida's lottery to build traffic and boost its convenience image. To date, it is the only major drug chain to apply to sell tickets in the upcoming games.

In June, Florida became the first state in the Southeast to approve plans for a statewide lottery.

Looking to sell lottery tickets for the first time, Eckerd has applied for licenses for each of its 497 stores in the state, according to Michael Zagorac, vp-public affairs.

'Tremendous interest'

"There seems to be a tremendous amount of interest out there by our customers," said Zagorac. "The chain feels ticket sales will build traffic and support its convenience image."

Twenty-six states plus the District of Columbia now have lotteries, according to the North American Association of State and Provincial Lotteries.

Drug chains that sell lottery tickets have had mixed success. Lotteries' main contribution is in traffic building, although income from the state based on sales and customers' winnings is also a factor. But some chains feel the aggravation of selling the tickets has outweighed any traffic-growth benefits.

Observers expect that most or all retail applicants in Florida will be licensed to dispense

instant winner tickets, which go on sale in January. But stores selling Lotto tickets that require computer terminals will be licensed individually, with the state licensing stores by neighborhood based on factors such as traffic and sales volume. Lotto sales are scheduled to start next June.

Walgreens won't apply for its Florida units, since it doesn't participate in lotteries in any state. "We feel this is not our niche. We would prefer to concentrate on drug store and health-related items," a spokesperson said.

Since Florida's lottery rules have yet to be written, retailers aren't yet under the gun to apply. Rite Aid, now converting the SuperRx and Gray Drug stores it bought last year, has not looked closely at Florida's lottery, said Rite Aid Chairman Alex Grass.

Traffic-building ability

Grass said that the game's traffic-building ability has made it worthwhile to sell tickets in selected Rite Aid stores in New York and Pennsylvania.

A spokesman at Publix supermarkets said: "We anticipate we will probably sell tickets where we are allowed to."

But Florida's convenience stores including 7-Eleven, Magic Market and Circle K have shown more interest than supermarkets so far, and will likely apply for all their stores, said Andy Williams,

vp of the Florida Retail Grocers Association.

On the West Coast, Longs Drug is among chains with second thoughts.

Trouble out west

It feels the two-year-old California lottery is fizzling, and customer participation in its stores is down 70 percent from when the game started, a chain spokesperson said.

"There was a lot of hype when it got started. But now it is dying of its own weight," said the spokesperson.

Longs initially required all stores to sell instant scratch-off tickets. When the Lotto electronic game started in September 1986, stores were given the option to participate in either game.

"We provided them a way to opt out when sales were sufficiently small so as to indicate a lack of consumer interest," he said.

Ten withdrew from the instant game, leaving 175 stores still offering it. But only five signed for the Lotto game, the spokesman said.

Benefits for Perry

In contrast, Perry Drug Stores has benefited from lotteries in Michigan and Illinois—states where all its stores have the instant lottery game, and about half the Lotto game, a spokesman said.

"We'd like to have it in all our stores because they're good traffic builders," he said.

Separate entrances, signs:

Thrifty Jr., Giant co-exist nicely in four Southern Calif. locations

By Pamela Krein

LOS ANGELES—Thrifty Jr. stores are now installed and operating in four Ralphs Grocery Co.'s Giant supermarkets in southern California.

Although Giant and Thrifty Jr. are under the same roof, separate exterior entrances and signs give the two chains their own identities. The marriage, however, allows Thrifty to extend its market coverage, while enabling Giant to offer a one-stop shopping concept.

Space reviewed normally

For Thrifty, the decision to lease the space from Ralph's did not contain "any magic about it," rather, the sites were reviewed just like any other potential locations, explained Bill Henry, senior vice president of real estate for the drug chain.

Henry said Thrifty "looked at the present store coverage," and evaluated whether a Giant location gave the drug chain a chance to in-fill a market.

The Giant/Jr. locations—at 4,000 square feet of selling space—are slightly smaller

than the current Jr. average, Henry said. However, Jr. stores do range in size from 3,000 to 11,000 square feet.

The Giant locales represent some of the first Jr. stores to be non-acquisition sites, Henry noted. Prior to these stores, Thrifty Jrs. were made up primarily of 31 former Drug King, Guild Drug and Guy's Drug stores—all acquired last year.

Coming into 1987, Thrifty had 32 Jr. stores in operation. With the opening of the Giant locations, the company said it now has more than 40 Jr. units. In 1988, the chain said it anticipates opening 28 Jr. stores.

The four Jr. stores have all opened this summer, two in July, one in August and one early in September. A fifth unit will open before the end of the month. Thrifty has no current plans to open additional Jr. stores at the grocery chain.

Number of stores

All told, Ralphs has 15 Giant supermarkets in southern California. In non-Thrifty Jr. locations, Giants are paired with

independent drug stores that lease space.

Ralphs included drug stores within the Giants in order to "create additional traffic for us and produce additional revenues," explained Alfred Marasca, executive vice president of marketing for the Compton, Calif.-based grocery chain.

The average Giant site is about 100,000 square feet, but Marasca said the company requires only about 70,000 square feet for its supermarkets. The remaining space has been turned over to a third party, which handles the lease agreements. In addition to drug stores, the Giant also contains other retailers, such as jewelry stores, yogurt shops, video rental centers and eye care stores.

While many of these can only be entered from within the Giant stores, the Thrifty Jrs. do not have an interior entrance.

Since Ralphs does not offer pharmacies in any of its approximately 130 grocery stores, Marasca said it was necessary to bring in a chain or independent drug store for the desired retail mix.

TRENDS

Wholesalers confident upturn is near

NEW YORK—The drug wholesaling industry did not have a good year in 1986.

Not only did the average gross margin in the industry drop to its lowest point in 10 years, but 1986 was also the first year that reductions in operating expenses did not offset the decline in gross margin profitability.

But now as 1987 is drawing to a close, drug wholesalers are consoling themselves with two positive thoughts: one, that the worst is behind them, and two, that 1986 wasn't a typical year but an aberration, and that 1987 and 1988 are going to be much better.

"1986 was not a typical year," says Phil Engle, president of Bergen Brunswig's Drug Wholesale division.

1986 was 'blimp' year

"Because of the rash of acquisitions that the industry has generated in the past two years, and the expenses of consolidating those acquisitions, 1986 was a blimp year.

"Part of early 1987 was also a downward blimp," says Engle, "but beginning in the third quarter of 1987, we began to see an upward trend, and I think that trend will hold up through the rest of 1987 and 1988."

Most wholesalers say they agree with Engle that 1987 will be "a bit better than 1986," and that 1988 and 1989 will hopefully signal a clear return to profitability.

Most wholesalers also say they feel pretty certain they know what happened to them in 1986, and they're confident they can overcome at least some of the problems during 1987 and '88.

"The National Wholesale Druggist's Association's (NWDA) report on operating results for 1986 was pretty accurate," says FoxMeyer Chairman Bill Tauscher. "1986 was a terrible year.

"Margins fell faster than reductions in operating expenses for the first time that I've been in the business."

Factors impacting profitability

Tauscher, like many other executives in the drug wholesaling industry, believes the 1986 profitability picture was adversely impacted by a number of factors. These included disinflation, the effects on major companies of too rapid consolidation, predatory pricing which was, in turn, spurred by a furious determination to gain market share points at any cost, and by pressure from hospitals and independent retail buying groups for higher discounts off their costs of goods.

"Because we reduced our prices faster than we reduced our operating expenses, the competitive nature of our industry outdid itself, and the result was a terrible year," says Tauscher.

Other wholesalers make the same point.

"Before, we have always been able to offset gross margin erosion with increased economies and efficiencies in operating expenses," says Joe Churchman, chairman of Alco Health Services and this year's chairman of NWDA.

"Now, however, we seem to have reached a point where that's not doable anymore, and there are many reasons for that including competition, the complexity of hospital business, the growth in the independent retail buying groups, etc.

"From here on out, the industry is



going to have to try to achieve further economies by moving in new directions, such as with the electronic transfer of funds and with bar coding methods, and these are now areas where the NWDA is trying to concentrate its energies."

"There is a ray of hope for 1987 and 1988," says Seth Harris, president of Harris Wholesalers.

"There's an attitude change now," Harris explained. "People are starting to look at profitability versus just doing more volume. I don't think the competitive situation is going to get better very fast, but I think we are starting to come out of the worst of it."

At Twin City Wholesalers in Minne-

sota, President Barry Krelitz calls this current stage of development "an opportunistic time for more wholesalers." Twin City, like Amfac, had a very profitable year in 1986, and Krelitz says their success was due to "extreme watchfulness on our part.

"We tried to improve our operations by reducing costs," he says, "and we watched our margins at the same time. But the average wholesaler today has to be creative in how they package their programs for the marketplace. You need to develop a package of services, and not just go out there and bid strictly on price."

At Bindley Western, President Bill Bindley further emphasizes the need

to improve gross margins.

"If your gross margin is not high enough to offset your operating expenses, then you're in a loss situation," says Bindley. "I hope that's sinking in. At some point, service has to become more important competitively than price alone.

"Price as a competitive tool can only be used successfully by the most cost-efficient wholesalers. If you want to use price as a key marketing tool, then you have to be able to continue to reduce the costs of your labor, the costs of your warehouses and the cost of your distribution network.

Wholesalers also identify the declin-

Continued on page 25

Wholesaler Annual Report

TRENDS

Wholesalers say '86 was atypical and look to future

Continued from page 23

ing inflation rate as a major culprit slashing away profitability in 1986.

Burt Olin, the chairman and ceo of Humiston-Keeling in Chicago, points out that for the past two years, wholesalers have been buying into price increases.

"Until recently," he notes, "pharmaceutical price increases have been averaging about 10% a year, but last year and this year, they have been averaging just 4% to 5% increases."

"At the same time, the industry has been discounting its own prices worse than ever for both hospitals and retailers. None of this is good for the wholesaler because it means that our inventories aren't growing in value."

Increases unpredictable

Other wholesalers point out that manufacturers are not only increasing their prices at lower rates, they are also taking increases less frequently and at unpredictable times.

Several wholesale executives made the point that management "used to know just about when a manufacturer was going to take a price increase and by about how much the price would be going up."

That meant that wholesalers could buy into the price increase, and stockpile before prices went up. Only today, however, the increases aren't that predictable. They're not coming as often and they're not as high when they do come, so instead of trying to build the value of their inventory, wholesalers are going back to trying to increasing their turns.

"When you turn your inventory faster," points out Olin, "you have money that you can invest in other ways. With gross margins as low as they are today, you can make more money buying CDs than you can by running a drug wholesale business."

Competition

At the same time that disinflation was nibbling away at the overall value of drug wholesaler inventories in 1986, competition for market share was intensifying.

Many wholesalers tried to buy market share by lowering their prices. Others tried to protect their existing shares by either meeting or beating the discounted prices of their competitors.

In many cases, the result has been regional price wars for business that often turned out to be unprofitable.

"You see a lot of wholesalers today backing away from the hospital business," says Olin. "It's partly because that to get the business in the first place, they went in with too low a bid and found out they couldn't make any money, and it's partly because of the problem with chargebacks."

A chargeback is the amount of money a pharmaceutical manufacturer will refund

wholesalers for pharmaceutical sales made to hospitals and not-for-profit institutions.

Most manufacturers have a discounted price for hospitals and not-for-profit businesses, but wholesalers typically have had to temporarily subsidize that discount by selling hospitals goods they have purchased from manufacturers at the normal non-discounted

price.

Manufacturers then reimburse wholesalers in chargebacks for the difference between what the wholesalers paid for the goods and the discounted price they, in turn, charged the hospitals.

Some manufacturers, however, are taking too long to reimburse the wholesaler for his cost of goods, and that means

the wholesaler sometimes has to wait two or three months or more before he gets compensated.

According to NWDA Chairman Joe Churchman, the delay in compensating wholesalers for chargebacks in 1986 cost the industry as much as \$200 million in out-of-pocket costs at any given time.

Another problem last year

was the growth of independent retail buying groups which negotiated for business strictly on the basis of securing the lowest possible cost of goods.

Many wholesalers say that because of the competitive nature of the industry, many drug wholesaling companies have been reducing prices sharply to capture this business.

"It's one thing to price very low if you can keep your operating expenses low enough to make money on that reduced margin," says Bill Bindley of Bindley Western.

Giving businesses away

"It's a different thing entirely to just give your business away. And it's also a different thing if you discount just so you can drive someone else out of business."

"I'm not so sure that latter has happened because the government would eventually step in, but the former certainly has happened, and the industry is paying for it."

1986 and 1985 were also intense years of acquisition activity. McKesson picked up three major regional companies in 1985. Bergen picked up five in 1985 and early 1986. FoxMeyer picked up three major companies, including the Ben Franklin distribution business and the franchising rights to the 1,300-store Ben Franklin chain which FoxMeyer is now actively franchising. Alco also picked up five companies, and Cardinal acquired two.

As Joe Polastri, the president of McKesson Drug Wholesaling, points out, "The major companies had an awful lot on the plate to digest in 1986."

In agreement

Polastri, Engle, Tauscher and other wholesalers also agree that it has taken this long for the acquiring companies to consolidate their new businesses and to achieve some of the benefits of increased economies of scale.

Now, however, most wholesalers say they believe the overall consolidation process is almost complete, and that in late 1987 and early 1988, the major companies, at least, which generate about 75% of all drug wholesaling sales, will be operating more efficiently.

Most wholesale executives then are being guardedly optimistic in their outlook for 1987 and beyond.

Churchman says he will not make any "sweeping predictions," but that he does believe the gross margin situation will improve.

Improvement needed

"An improvement has to come because wholesalers are becoming aware that they simply need to improve their returns."

"Also, you have more public companies today that have to report their earnings to stock-

Continued on page 28

The nation's highest volume drug wholesalers

Company	FY ending	Est. drug wholesale sales (millions)	% change last year
1. McKesson Drug + San Francisco	3/31/88	\$ 4,800	7.0%
2. Bergen Brunswig + Los Angeles	8/31/87	2,750	12.5
3. FoxMeyer + + Denver	3/31/88	1,800	38.0
4. Alco Health Services + + Valley Forge, Pa.	9/30/87	1,700	31.0
5. Bindley Western + + Indianapolis	12/31/87	1,000	42.0
6. Harris Wholesalers Solon, Ohio	4/30/88	1,000	6.0
7. Amfac Drug Supply + + Burlingame, Calif.	12/31/87	700,000	23.0
8. Cardinal Health Group + + Dublin, Ohio	3/31/88	500,000	39.0
9. Humiston Keeling Chicago	5/01/88	360,000	13.0
10. Ketchum Distributors + + Norwalk, Conn.	4/30/88	320,000	5.0
Sub-total			
Est. 1987 sales for Top 10		\$14.9	
Top 10's share of total industry sales		77%	
11. Durr Fillauer + + Montgomery, Ala.	12/31/87	312,000	17.0
12. Owens & Minor + + Richmond, Va.	12/31/87	226,000	8.0
13. Louis Zahn Drug Melrose Park, Ill.	12/31/87	206,000	13.0
14. Northwestern Drug Auburn, Wash.	10/31/87	202,000	7.0
15. Twin City Wholesalers Minneapolis	4/30/88	171,000	11.0
16. Drug Guild Distributors Secaucus, N.J.	7/31/87	170,000	0.0
17. North Carolina Mutual Durham, N.C.	3/31/88	125,000	7.0
18. F. Dohman Drug Co. Germantown, Wis.	4/30/88	114,000	14.0
19. J. E. Gould & Co. Portland, Me.	12/31/87	102,000	23.0
20. Solomons Co. Savannah, Ga.	8/31/88	95,000	6.0
21. Dr. T. C. Smith Co. Asheville, N.C.	4/30/88	93,000	16.0
22. Remo Drug Corp. Brooklyn, N.Y.	12/31/87	86,000	21.0
23. Northwestern Drug Minneapolis	12/31/87	72,000	6.0
24. Dik Drug Burr Ridge, Ill.	12/31/87	70,000	16.0
25. Miami-Luken Dayton, Ohio	6/30/87	65,000	8.0
Total Est '87 Sales for Top 25			
		\$17.0	
Total Estimated 1987 sales for the Industry		\$19.4	
Top 25 share of total		88%	
Est '87 sales		89%	

+ + Public companies

Source: Drug Store News/NWDA 1987 Wholesaler Survey